

VZCZCXRO3256  
OO RUEHPT  
DE RUEHBY #1092/01 3450537  
ZNY CCCCC ZZH  
O 110537Z DEC 09  
FM AMEMBASSY CANBERRA  
TO RUEHC/SECSTATE WASHDC IMMEDIATE 2421  
INFO RUEHBJ/AMEMBASSY BEIJING 9671  
RUEHJA/AMEMBASSY JAKARTA 5577  
RUEHOT/AMEMBASSY OTTAWA 0017  
RUEHUL/AMEMBASSY SEOUL 9975  
RUEHKO/AMEMBASSY TOKYO 3762  
RUEHWL/AMEMBASSY WELLINGTON 0180  
RUEHBN/AMCONSUL MELBOURNE 6831  
RUEHPT/AMCONSUL PERTH 5095  
RUEHDN/AMCONSUL SYDNEY 5100  
RHMFISS/DEPT OF ENERGY WASHINGTON DC  
RUCPDOG/DEPT OF COMMERCE WASHINGTON DC  
RHEHNSC/NSC WASHINGTON DC

C O N F I D E N T I A L SECTION 01 OF 02 CANBERRA 001092

NOFORN  
SIPDIS

STATE FOR S/CIEA GOLDWYN, EEB/ENR MONOSSON  
DOE FOR MARKOWSKY, SKEER  
COMMERCE FOR 3132/USFCS/OIO/EAP/JRULAND,  
4538/MAC/EAP/OPB/GPAINE

E.O. 12958: DECL: 12/12/2019  
TAGS: [ENRG](#) [EPET](#) [ECON](#) [AS](#)  
SUBJECT: AUSTRALIA UPS PRESSURE ON BIG LNG PROJECT PARTNERS

REF: A. CANBERRA 630  
[1](#)B. PERTH 40  
[1](#)C. PERTH 54

Classified By: POL/ECON COUNSELOR EDGARD KAGAN, REASONS 1.4(B)(D).

[1](#)1. (SBU) Summary: The government is fulfilling its pledge to strengthen "use it or lose it" policies to encourage faster development of LNG resources. Resources and Energy Minister Martin Ferguson announced December 4 that Browse Basin LNG project joint venture (JV) partners Woodside, BHP, BP, Chevron and Shell must develop a plan to produce LNG within 120 days, as a condition for extending for three years their retention leases on gas fields in the project. Ferguson also canceled the retention lease on a small field that is part of the Pluto gas project. More decisions shortening or canceling retention leases are expected in the near future, some of which may impact U.S. companies, particularly Chevron and ExxonMobil. End Summary.

[1](#)2. (SBU) Retention leases for LNG fields have been granted since the 1980s to allow companies to hold rights to exploit a resource over a long period. Previous policy had been to routinely renew retention leases for 5 years. Since 1985, only one of 58 retention leases has ever been overturned by the government. The government announced this year that it was reviewing policy on these leases and released a discussion paper in June (ref A).

#### GOVERNMENT CONDITIONS ON LEASES

-----

[1](#)3. (SBU) Minister Ferguson announced on December 2 that he was placing a 120-day deadline on Browse JV partners to come up with a "development theme" as a condition of extending seven retention leases for a period of three years. Ferguson also turned down the renewal of a retention lease on the Dixon field, part of the Northwest Shelf JV between Woodside, BHP, Chevron, BP, Japan Australia LNG, and Shell. Ferguson gave the Northwest shelf partners one year to apply for a production permit at the field.

[1](#)4. (SBU) Both decisions put pressure on JV partners to develop plans for bringing LNG from these projects into the

market quickly. The Browse project particularly has been slow to develop, largely because of differences over whether to use existing gas infrastructure or pay to develop a new processing facility at James Price Point (ref B), a plan favored by Woodside. Driving the government's decision is concern that major international oil companies are using Australia's relatively lenient reservation lease policy to sit on reserves rather than bring them into the market. The benefits of constructing large projects for the local economy and Western Australian government are also substantial.

#### UNPRECEDENTED INTERVENTION?

-----

15. (C/NF) Australian Petroleum Producers and Explorers Association (APPEA) Director for Exploration and Access Ranga Parimala told econoff on December 7 that the decision was an "unprecedented interference" by the government in a project, intended to force Browse partners to choose Woodside's preferred development pathway. In Parimala's view, the Qpreferred development pathway. In Parimala's view, the Browse JV partners would have no chance to develop a credible alternative in 120 days and would either accept the James Price Point plan or seek to walk away from the JV project.

16. (C/NF) Ferguson's Energy Advisor, Tracy Winters, said December 9 that the government would not allow companies to build portfolio investments by sitting on Australian resources over a long term. Winters suggested it would be a good thing if some of the most reluctant partners pulled out of contentious and slow-developing deals, as "there are plenty of investors ready to fill in their places." More

CANBERRA 00001092 002 OF 002

decisions like this are coming, Winters said, including a review of Chevron's large Wheatstone project retention leases (ref C). According to Winters, timelines and conditions like those in the Browse decision would be a model for future decisions. A formal policy statement was being drafted, but was delayed within the Department of Resources, Energy and Tourism.

#### WOODSIDE A WINNER

-----

17. (C/NF) Chevron's External Affairs Manager for Wheatstone, Mike Edmondson, told CG Perth that the decisions reflected Ferguson's long-standing views on "use it or lose it" provisions and Woodside's lobbying to put pressure on its partners. He said the decisions are unprecedented and concerning. Overly prescriptive rulings on retention leases would increase the sovereign risk of investing in Australia. Companies like Chevron are already worried about labor and equipment delays in the heated Western Australia LNG market, which could also run up against government deadlines. Winters said companies with credible reasons for delay could work with Ferguson to obtain more time.

18. (C/NF) BHP Billiton Vice President for Government Relations Bernie Delaney previously told us that his firm is strongly opposed to the changes in retention leases, which are likely to push companies such as Chevron and BHP to use existing Woodside infrastructure in the Northwest Shelf, and to develop the new James Price Point complex. Delaney said that BHP and several other partners in the Northwest Shelf venture (which is operated by Woodside) are very frustrated with Woodside's operating style and would much prefer to build their own processing facilities. This leaves Woodside sitting on very expensive processing assets without a long term supply of gas. Delaney believes that the Government policy is driven in part by a desire to minimize the number of complicated environmental approvals that would slow development in the Northwest. He also noted that the retention leases for the Browse project contain caveats that give the partners greater flexibility, such as requiring that they be in a position to make a final investment decision

within three years rather than demanding such a decision in 120 days.

¶9. (SBU) Comment: The clear winner in the initial set of decisions by Ferguson is Woodside, whose reluctant JV partners in two projects will likely be forced to accept Woodside's two preferred development options. More decisions are expected early in 2010, but the government has shown that the previous lengthy retention policy is no longer an option.  
End comment.

BLEICH